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## Britain's Foreign Trade Policy

BY JAMES FREDERICK GREEN

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# Britain's Foreign Trade Policy

BY JAMES FREDERICK GREEN

with the aid of the Research Staff of the Foreign Policy Association

THE announcement in November 1937 that a trade agreement between Great Britain and the United States would be negotiated this winter has aroused considerable interest regarding British commercial policies in the post-depression years. The National Government, which took office during the financial crisis of September 1931, has sought in diverse ways to redress the adverse balance of payments which then threatened British stability and to protect the country's economy against unprecedented disturbances in international relations.<sup>1</sup> The National Government has taken the credit for the remarkable prosperity of the past two years, exceeding in many instances all previous records, attributing it to such policies as currency devaluation and exchange equalization; default on the American war debt and conversion of the national war loans; tariff protection and imperial preference; widespread assistance to business and agriculture; cheap money; stringent control of the capital market; and a balanced budget.<sup>2</sup> By contrast to the rapid increase in industrial production, however, British foreign trade has displayed a serious lag.<sup>3</sup> The failure of British exports to expand proportionately to national pro-

duction and the continued depression in two of the major industries dependent on exports—coal and textiles—require investigation into the nature of British foreign trade, the effect of measures taken on its behalf, and its probable future in the face of altered circumstances at home and abroad.

## REMEDIES FOR DEPRESSION

The crisis of 1931 was precipitated by a flight of capital from London and a serious drain on gold reserves, the result of anticipated budget deficits at home and the freezing of short-term loans in Austria and Germany. Income from shipping, overseas investments, government transactions, and other services was reduced from £414 million in 1930 to £304 million in 1931, while at the same time the merchandise import surplus rose from £386 million to £408 million and the net debit on capital movements, influenced largely by the short-term loans, increased from £60 million to £95 million.<sup>4</sup> The adverse balance of payments created by the financial emergency required, according to the coalition cabinet, both internal remedies and reduction of the growing import surpluses, through decrease of imports and increase of exports. With a view to obtaining this reduction, the government used the weapons of currency devaluation, protective tariffs, imperial preference, trade agreements and assistance to export industries.

The suspension of gold payments on September 20, 1931 removed the disadvantages which had accrued from overvaluation of the pound in 1925. Britain's departure from the gold standard, dictated by immediate danger to the currency, was also designed to assist the producer by easing his debt burden and improving his competitive position in foreign markets. In order to maintain sterling at a desired parity with the dollar and franc,

4. *The Economist* (London), November 20, 1937. Cf. table on p. 259.

1. Cf. Maxwell S. Stewart, "Britain's Financial and Economic Crisis," *Foreign Policy Reports*, November 11, 1931.

2. Cf. William Koren, Jr., "Britain's Economic Recovery: Policies of the National Government," *Foreign Policy Reports*, July 31, 1935; and "Britain's Economic Recovery: Prospects for Prosperity," *Foreign Policy Reports*, August 14, 1935; and D. Graham Hutton, "The Economic Progress of Britain," *Foreign Affairs*, January 1938, pp. 279-93.

3. BRITISH RECOVERY: QUANTUM INDEX\*

	1929	1932	1936
Industrial Production	100	83.5	116.1
Imports	100	88.2	102.9
Exports	100	62.9	76.2

\*League of Nations, *World Production and Prices*, 1936-37, p. 47; *Review of World Trade*, 1936, p. 33. For a detailed comparison of production and exports in the period 1924-1934, cf. George William Daniels and H. Campion, *The Relative Importance of British Export Trade* (London, Executive Committee of the London and Cambridge Economic Service, 1935).

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the government in 1932 established the Exchange Equalization Fund, armed with £150 million, whose work was shielded in secrecy.<sup>5</sup> The fund was expanded to £350 million in 1933 and again to £550 million in the summer of 1937, when the government agreed to issue semi-annual reports regarding its holdings of gold and foreign exchange.<sup>6</sup> After declining to 72 per cent of its gold value in 1932 and to 68.1 per cent in 1933, the pound has been kept at approximately 59 to 61 per cent since 1934.<sup>7</sup>

British opportunities for foreign trade have been enhanced since 1931 by the existence of a "sterling bloc" of countries more or less tied to the pound. By 1937 this bloc included the entire British Empire, the Scandinavian countries, Finland, Estonia, Portugal, Egypt, Japan, Argentina, Bolivia, Brazil, Colombia and Paraguay.<sup>8</sup> Although the fluctuations of depreciated currencies have impaired trade relations during the depression, the sterling bloc has been able to maintain a relative degree of stability.<sup>9</sup> The area of devaluation was widened when the American dollar depreciated in March 1933 and was devalued in January 1934 at 59.06 per cent of its former value. The once impregnable gold bloc crumbled in 1936, when France, Switzerland and the Netherlands forsook the gold standard. The governments of France, Great Britain, and the United States, however, agreed to cooperate in maintaining the stability of their currencies.<sup>10</sup> Although the franc has continued to fall, involving a second devaluation in June 1937, the pound and dollar have remained relatively firm.

The protective tariffs of 1931 and 1932, by which Britain renounced its historic title of "greatest free trade nation on earth," consummated a movement which had begun in 1915 with the McKenna duties of 33⅓ per cent *ad valorem* on certain luxuries: motor cars, clocks, watches, cinema films and musical instruments.<sup>11</sup> Under the Dyestuffs Act of 1920, the importation of dyestuffs was prohibited

except under license. The Safeguarding of Industries Act of 1921 provided anti-dumping regulations (allowed to lapse in a few years) and instituted 33⅓ per cent *ad valorem* duties, some of which were later raised to 50 per cent or higher, on products regarded as essential to certain "key" industries, including such articles as scientific instruments and glassware, optical glass, wireless valves, ignition magnetoes and certain chemicals. The Abnormal Importations Act of November 1931, a temporary measure of six months' duration, provided the respite which the government desired from a new flood of imports.<sup>12</sup> Subject to the approval of Parliament within four weeks, the Board of Trade was authorized to impose duties up to 100 per cent *ad valorem* on any manufactured articles being imported in abnormal quantities. Similar restrictions were authorized on imports of specified fruits, flowers and vegetables by the Horticultural Products Act of December 1931.<sup>13</sup> These emergency measures were replaced in February 1932 by the Import Duties Act, which erected a minimum barrier of 10 per cent on luxury articles and articles produced or likely to be produced in substantial quantities in the United Kingdom.<sup>14</sup> Provision was made for importation free or under reduced duty in case imperial preferences or reciprocal trade agreements were arranged, and for retaliatory duties against discrimination.

Although considerably lower than the tariff walls surrounding the United States and other countries, this new barrier about the British Isles was unusually drastic in character. In contrast to the American duties, for example, which had accumulated over a long period of time and to which merchants had long been accustomed, the sudden imposition of duties of 10 per cent and higher in the largest market in the world had an unusually restrictive effect. It is estimated that the increases in the United Kingdom tariff in 1932 and since have been four times as great as the increase in the Smoot-Hawley tariff of 1930.<sup>15</sup> The fact that the tariff was imposed as the world depression was rapidly deepening enhanced its influence in diminishing international trade.<sup>16</sup>

5. *Public General Acts, 1931-32*, 22 & 23 Geo. V, Ch. 25, Pt. IV.

6. *Parliamentary Debates*, House of Commons, June 28, 1937, vol. 325, cols. 1660-1736.

7. League of Nations, *Monthly Bulletin of Statistics*, November 1937, p. 512.

8. As the sterling bloc is a loose assortment of states whose currencies are pegged to sterling more or less firmly, the complete list varies with different authorities, especially as regards Canada, which wavers between the dollar and the pound. Cf. Robert B. Stewart, "Instruments of British Policy in the Sterling Area," *Political Science Quarterly*, June 1937, p. 176.

9. Cf. John C. deWilde, "Currency Stabilization and World Recovery," *Foreign Policy Reports*, August 28, 1935.

10. *The Times* (London), September 26, 1936.

11. For a concise summary of British tariff policy before 1931, cf. J. Henry Richardson, *British Economic Foreign Policy* (London, George Allen and Unwin, 1936), pp. 84-92.

12. *Public General Acts, 1931-32*, 22 & 23 Geo. V, Ch. 1.

13. *Ibid.*, Ch. 3.

14. *Ibid.*, Ch. 8.

15. Benjamin B. Wallace, "Fallacies of Economic Nationalism," in *Peace or War?* (Minneapolis, University of Minnesota Press, 1937), p. 73.

16. "It is literally and absolutely true to say that in the last five or six years, the commercial policy of no single country in the world has had so great an effect as has that of our country in restricting and deflecting the trade of the world." Sir Arthur Salter, in *Parliamentary Papers*, House of Commons, May 25, 1937, vol. 324, col. 145.

## THE OTTAWA AGREEMENTS

Imperial preference was woven into this new protectionist pattern through the Ottawa agreements, signed in August 1932, which marked a compromise between the pre-war trend of international specialization, involving the exchange of British manufactures for colonial raw materials and foodstuffs, and the post-war trend of national self-sufficiency, stressing the development of manufacturing in the Dominions and of agriculture in Britain.<sup>17</sup> In a series of seven treaties Britain agreed to continue, with certain exceptions, the exemption of Empire goods from its new tariffs.<sup>18</sup> The United Kingdom further promised not to reduce, without the consent of the Dominion concerned, the 10 per cent *ad valorem* duty on articles of particular interest to the Dominions, including barley, wheat flour, tinned meat, potatoes, timber, leather, lead and zinc. New or increased duties were also pledged on imports from non-British countries: wheat, copper and linseed were removed from the free list, and higher duties were promised for butter and cheese, eggs, preserved milk and fresh, canned and tinned fruits. In return for these concessions to their products, the Dominions in various ways extended their established preference on British goods, chiefly by raising rates against non-British articles.<sup>19</sup> In addition to pledging the abolition of certain crisis restrictions, the Dominions promised a "scientific tariff," with opportunity provided for British manufacturers to express their views. Imperial preference was extended to the colonies, thus ending the traditional "open door." Although the Ottawa negotiators declared that this network of trade agreements was designed to inaugurate a movement for freer world trade, the practice was distinctly in favor of the home producer first, the Empire producer second, and the foreign producer last.<sup>20</sup>

17. Cf. Maxwell S. Stewart, "The Ottawa Conference," *Foreign Policy Reports*, December 21, 1932.

18. For text of the United Kingdom agreements with Canada, Australia, New Zealand, South Africa, Newfoundland, India, and Southern Rhodesia, cf. *Public General Acts*, 1931-32, 22 & 23 Geo. V, Ch. 53.

19. For convenient summaries, cf. Stewart, "The Ottawa Conference," cited, pp. 249-50; and *The Economist*, May 15, 1937, pp. 262-63.

20. In 1930, 80.3 per cent of importations from foreign countries into Britain were admitted free of duty. The 1932 tariff reduced the duty-free imports to 30.2 per cent of the total from non-British countries, while 30.2 per cent paid 10 per cent duties, 15.3 per cent paid 11 to 20 per cent duties, and 4.6 per cent paid duties of over 20 per cent. The Ottawa arrangements served merely to heighten this barrier against foreign goods, for of the original 80.3 percentage free of duty, only 25.2 remained so, while 28.3 per cent paid 10 per cent duties, 21.8 per cent paid 11 to 20 per cent duties, and 7.7 per cent paid duties of over 20 per cent. Richardson, *British Economic Foreign Policy*, cited, p. 128.

The generosity of the United Kingdom toward Empire suppliers of foodstuffs was curtailed, in practice, by the demands of domestic agriculture, jeopardized by falling prices and foreign competition. Under Major Elliot, Minister of Agriculture, a vast and variegated program was launched in 1931, embracing marketing schemes, subsidies, price-fixing, crop-restriction, and limitation of imports through licenses and quotas.<sup>21</sup> Meat quotas were accepted by the Dominions at the Ottawa Conference, but proposals for limitation of dairy imports were unsuccessful, except in the case of manufactured milk products. Since October 1936, when Mr. W. S. Morrison became Minister of Agriculture, intervention in agrarian affairs has declined.<sup>22</sup> Many of the earlier marketing and quota schemes have proved unworkable, and the government has refused to apply the quota system to eggs, despite the demands of the poultry interests. The check on imports, however repugnant to the Dominions, has succeeded in aiding the domestic production of foodstuffs,<sup>23</sup> a result which is especially welcome in the present preoccupation with rearmament. Although self-sufficiency with regard to foodstuffs is impossible for Britain, the agricultural problem is being viewed increasingly in terms of wartime needs.

## BRITISH TRADE AGREEMENTS

In addition to the Ottawa agreements the United Kingdom took advantage of the excellent bargaining position which the new tariffs provided to negotiate bilateral agreements with other suppliers of foodstuffs and raw materials. As British imports from Scandinavian, Baltic and Latin American states were generally far greater than exports to them, it was relatively easy to utilize the threat of import quotas and higher tariffs to secure concessions for British exports. Although many concessions were made to foreign producers, they were in no way comparable to the advantages gained for United Kingdom exporters. Even though the trade agreements program did not involve a complete balance of trade between Britain and each

21. Cf. Koren, "Britain's Economic Recovery: Policies of the National Government," cited, pp. 136-39; and Richardson, *British Economic Foreign Policy*, cited, pp. 156-98.

22. *The Economist*, July 3, 1937.

23. FOOD SUPPLIES OF THE UNITED KINGDOM\*

	Domestic	Imports
Wheat	+45.6	-15.6
Pig-meat	+58.5	-34.6
Butter	0.0	+21.0
Cheese	+10.0	-6.9
Sugar	+112.0	+10.7
Eggs	+9.3	-4.6

\*League of Nations, *World Economic Survey*, 1936-37, p. 151.

foreign country, it represented an attempt to canalize commerce on a bilateral basis.

Of some twenty commercial agreements negotiated between 1931 and 1937, the treaties with the Scandinavian and Baltic countries, the Argentine, and the Soviet Union are outstanding.<sup>24</sup> The trade agreements signed in 1933 and 1934 with the six Scandinavian and Baltic states embraced an elaborate set of mutual concessions, but by far the larger part accrued to Great Britain. The major victory for British exports was in coal quotas, by which each signatory gave the United Kingdom an irreducible minimum share in its imports of coal.<sup>25</sup> More favorable treatment was also obtained for textiles, iron and steel, and other manufactures. Britain, in return, offered tariff stabilization or reduction on many important items, including fish, timber and agricultural products.<sup>26</sup>

Agreements with Poland, the Argentine and the U.S.S.R. were more complicated in form, with slightly greater advantages allowed by Britain. Poland pledged reduction of rates on many British articles, bound its rates on others, and promised adequate import quotas for British goods and non-enforcement of any regulations regarding compensation trade as long as mutual trade was favorable to Poland.<sup>27</sup> Britain agreed not to regulate agricultural imports from Poland except as necessary under domestic marketing schemes, and promised minimum quotas on certain products—bacon, eggs and butter. The Roca-Runciman agreement with the Argentine combined commercial and clearing arrangements with special concessions for Argentine meats.<sup>28</sup> The United King-

dom agreed not to reduce its quota on Argentine frozen meat more than 10 per cent below that of the year ending June 30, 1932, without arranging with other meat producers for a general quota reduction. Quotas on frozen beef and mutton were not to be reduced below those of the Ottawa agreements. The Argentine government arranged to apply sterling exchange received on exports to Britain to outstanding debts to British citizens, and provide exchange for payments on imports from the United Kingdom. The British trade agreement with the Soviet Union contained the unique feature of a fixed ratio for the balance of payments between the two countries.<sup>29</sup>

Britain has made special arrangements in recent years to facilitate the payment of commercial debts by countries maintaining control of foreign exchange.<sup>30</sup> Clearing agreements have been made with Italy and Spain; payment agreements with Germany, Hungary, and Uruguay; and combined clearing and payment agreements with Rumania and Turkey. The Italian treaty goes farthest toward distorting the course of trade for the purpose of discharging debts.<sup>31</sup> Italy was granted a favorable balance of trade in order to accumulate sufficient sterling to pay debts to the United Kingdom through a special clearing office. The sterling funds were to be distributed as follows: 70 per cent on debts in connection with current trade; 27 per cent on arrears of commercial debts; 3 per cent on financial debts and remittances. Italy promised to import every three months at least 97,000,000 lire worth of Newfoundland codfish and United Kingdom goods, including coal and coke valued at 43,000,000 lire.

Although promoting the preference formula in inter-Empire trade and securing special privileges through trade agreements, Britain has consistently opposed the formation of other "low tariff clubs" which might infringe on its rights under the most-favored-nation clause.<sup>32</sup> Although it was reported that Britain might join France and the United States in waiving their treaty rights if tariff reductions were arranged in the Danubian area, British hostility thwarted the efforts of the "Oslo group"—Belgium-Luxemburg, the Netherlands, Denmark, Norway and Finland—to secure the lowering of duties against each other's goods. The Oslo

24. For a comprehensive study of British trade agreements and their effects, cf. P E P (Political and Economic Planning), *Report on International Trade* (London, P E P, May 1937), pp. 280-95.

25. MINIMUM SHARE OF COAL IMPORTS FROM BRITAIN\*  
(Percentage of total imports)

Norway	70	Finland	75	Lithuania	80
Sweden	47	Latvia	70	Estonia	85
Denmark	80				

\*P E P, *Report on International Trade*, cited, p. 281.

26. The agreement with Norway, a typical example, contained the following provisions:

- Schedule of British imports into Norway on which duties are not to be other or higher than listed.
- Schedule of Norwegian imports into United Kingdom on which duties are not to be other or higher than listed.
- If fish quotas are applied, Britain agrees to take from Norway at least 240,000 cwts. of white fish and 500,000 cwts. of fresh herring. Salmon, trout, lobsters, etc. to be unlimited.
- In case of quotas on dairy and poultry products, Britain agrees to consult with Norway.
- Britain can terminate agreement if Norway does not import 70 per cent of its coal from Britain.

Great Britain, *Treaty Series*, No. 4, Cmd. 4500 (London, H. M. Stationery Office, 1934).

27. Great Britain, *Treaty Series*, No. 33, Cmd. 4984 (London, H. M. Stationery Office, 1935).

28. Great Britain, *Treaty Series*, No. 2, Cmd. 4494 (London, H. M. Stationery Office, 1934).

29. 1934—1:1.7, 1935—1:1.5, 1936—1:1.4, 1937—1:1.2, 1938—1:1.1.

30. Cf. International Chamber of Commerce, *Clearing Agreements* (Paris, 1936).

31. Great Britain, *Treaty Series*, No. 2, Cmd. 5345 (London, H. M. Stationery Office, 1937).

32. Cf. P E P, *Report on International Trade*, cited, pp. 81-83.

Convention of 1930 and the Ouchy Convention of 1932 were both defeated by the United Kingdom, and the general principle of low tariff groups is opposed by the United Kingdom on the ground that they involve sacrifice of the most-favored-nation rights and invite retaliations.<sup>33</sup> Although the value of regional customs unions as a stimulus to international trade is open to question, many critics have urged the government to relax its rigid adherence to most-favored-nation treatment in special areas where freer trade is desirable.<sup>34</sup>

#### ASSISTANCE TO EXPORTS

With the exception of the trade agreements, the problem of exports has received less official attention than that of imports. Routine governmental assistance has operated primarily through the Department of Overseas Trade, a joint sub-department of the Board of Trade and the Foreign Office organized in 1918 for the handling of commercial information.<sup>35</sup> More direct aid has been furnished through the Export Credits Guarantee Department in the Board of Trade, which insures the exporter against risks the private insurance companies are 'unable or unwilling to accept'.<sup>36</sup> Although the Department was not much used immediately after its establishment in 1919, it has steadily increased its activities, particularly in the depression years.<sup>37</sup> Under the Credit Insurance Scheme inaugurated in April 1930, the Department has guaranteed £23 million in respect of credits amounting to £45 million, with net profit on the transactions. This guarantee system was made a permanent part of the governmental trade machinery by a bill passed with almost unanimous support in July 1937, revising the powers of the Department and increasing its resources from £26 million to £50 million.<sup>38</sup>

Expansion of exports has been seriously hampered by the almost complete disappearance of foreign capital issues, which traditionally have underlain British commerce. In its simplest terms, the flotation of a loan meant that the borrower

had established in London certain credits with which he could purchase materials such as railway stock or machinery, thus adding to British exports; while interest and amortization on the loan would later be financed by the sale of the borrower's products, thus adding to British imports. An official embargo on all foreign loans was adopted as an emergency measure in 1931, but raised in 1934 to permit borrowings by countries in the sterling bloc.<sup>39</sup> Since the Treasury has maintained a fairly rigid ban during the past three years, foreign issues have remained an almost negligible portion of the British capital market, and there has been little incentive for the opening of new export markets.<sup>40</sup> There has been as yet no indication that the embargo will soon be lifted, although in April 1936 an Advisory Committee on Foreign Issues under Lord Kennet was appointed to examine the entire question.<sup>41</sup>

#### EFFECT ON IMPORTS

In the eight years since the 1929 depression British foreign trade has shown remarkable changes in both volume and direction. After declining from £2059 million in 1929 to £1092 million in 1933, the total value of United Kingdom trade recovered to £1350 in 1936. The unevenness of this new ascent toward prosperity is indicated by the more favorable position of imports. On the basis of a 1929 index, imports declined in value from 70.6 in 1931 to 55.25 in 1933, followed by an upturn which reached 69.4 in 1936.<sup>42</sup> Exports have shown a more severe drop and less successful return: 53.6 in 1931, 50.0 in 1932, and 60.5 in 1936. The quantum of British imports was actually 102 for 1936, as contrasted with 100 for 1929, although exports had recovered in 1936 to only 76.<sup>43</sup> In

39. The few new loans to countries outside the Empire have been designed to increase the London balances of sterling bloc states or to aid British industry, as in the financing in 1933 of the Seeland-Falster bridge in Denmark. Robert B. Stewart, "Instruments of British Policy in the Sterling Area," *Political Science Quarterly*, June 1937, pp. 184-91.

#### 40. DISTRIBUTION OF BRITISH CAPITAL ISSUES (in millions of pounds)

Net Issues to	1928	1931	1936
United Kingdom	176.6	40.0	207.0
British Empire	80.1	36.9	28.3
Foreign Countries	63.3	12.4	3.3
Unaccounted for	6.6	0.3	0.7
Total	326.7	89.6	239.4

Source: League of Nations, *Statistical Yearbook*, 1936-37, p. 298. Another compilation shows that only 0.5 per cent of new issues in London for the three-year period 1934-1936 were foreign loans as compared to 47 per cent in the pre-war period 1911-1913. *The Economist*, September 11, 1937.

41. Great Britain, *Parliamentary Papers*, House of Commons, April 7, 1936, vol. 310, cols. 2601-2602.

42. P E P, *Report on International Trade*, cited, p. 248.

43. League of Nations, *Review of World Trade*, 1936, p. 33.

33. "Empire Trade and World Trade," *The Round Table*, June 1937, pp. 503-505.

34. Cf. speech of Sir Arthur Salter, *Parliamentary Debates*, House of Commons, May 25, 1937, vol. 324, pp. 143-51.

35. Cf. P E P, *Report on International Trade*, cited, pp. 150-63. These writers urge a larger budget for the Department of Overseas Trade, which they claim is not as efficient as its American counterpart, the Bureau of Foreign and Domestic Commerce.

36. Cf. Ethel Barbara Dietrich, "British Export Credit Insurance," *American Economic Review*, June 1935, pp. 236-49.

37. Between 1919 and 1930 approximately £15 million in credits were guaranteed, a variety of devices being employed to cover security, premiums, commissions, etc.

38. *Parliamentary Debates*, House of Commons, July 2, 1937, vol. 325, cols. 2332-2343.

contrast to 1929, moreover, when Britain accounted for 15.9 per cent of total world imports and 11.1 per cent of world exports, recent figures underline the relatively slow recovery of exports: in 1932, Britain was responsible for 17.0 per cent of world imports and 10.3 per cent of world exports; in 1936, 18.2 per cent of world imports and 10.6 per cent of world exports.<sup>44</sup>

This discrepancy is emphasized in the returns for 1936, when British imports increased 12 per cent in value and 7 per cent in volume over 1935, whereas exports increased only 3½ per cent in value and 2 per cent in volume.<sup>45</sup> In addition to the increased imports due to rearmament, much of this inequality is the result of variations in price levels, for the prices of imported products fell more rapidly in depression and are rising more rapidly in recovery.<sup>46</sup> The recent upswing in the price level of foodstuffs and raw materials and steadiness in that of manufactures has greatly aided suppliers of primary materials in the British market and swelled the import surpluses of the United Kingdom.<sup>47</sup>

#### EFFECT OF BRITISH TRADE POLICY

The total value of British imports declined £159.6 million, or 18 per cent, between 1931 and 1932, and £26.6 million, or 3.7 per cent, between 1932 and 1933. The full burden of this curtailment fell on non-British countries, which suffered both absolutely and relatively in this period. The share of British countries in United Kingdom imports increased 22.9 per cent between 1931 and 1932, and 7.6 per cent during the next year, although the actual gain by value was slight, indicating that they merely held their own position without actually absorbing the markets of non-British producers. Following the upturn in 1934 both Empire and foreign exporters have benefited, and their proportion of total British imports has remained approximately the same, with Empire countries approaching 40 per cent in 1936.

44. *Ibid.*, p. 25.

45. *The Economist*, February 20, 1937.

46. G. N. Butterworth and H. Campion, "Changes in British Import Trade, 1924-36," *Manchester School*, 1937, Vol. VIII, pp. 48-55. These authors compute the ratio of export over import prices as follows—import prices remaining at 100:

1924 — 100	1935 — 114
1930 — 104	1936 — 112

#### 47. PRICES OF ARTICLES IN INTERNATIONAL TRADE (1929=100)

	1933	1934	1935	1936
Foodstuffs	45.5	41.5	40.5	42.5
Raw materials	40.0	39.5	39.5	41.5
Manufactures	56.0	50.0	48.0	48.0

League of Nations, *World Production and Prices*, 1936-1937, p. 96.

#### SOURCE OF BRITISH IMPORTS (in millions of pounds)

Year	From foreign countries		From British countries		Total
		%		%	
1929	861.9	70.6	358.8	29.4	1,220.7
1930	739.9	70.8	304.0	29.2	1,043.9
1931	613.8	71.3	247.4	28.7	861.2
1932	453.5	64.7	248.1	35.3	701.6
1933	425.8	62.0	249.1	38.0	675.0
1934	460.1	63.0	271.2	37.0	731.4
1935	471.4	62.4	284.5	37.6	756.0
1936	516.3	60.9	332.5	39.1	848.9

*The Economist*, May 1, 1937, p. 265.

Although the Ottawa agreements have been widely credited with giving this marked advantage to Empire producers—on the basis of *post Ottawa, ergo propter Ottawa*—many other factors have played an equally if not more important part.<sup>48</sup> Suspension of the gold standard gave immediate advantage to exporters in the sterling bloc—including the entire British Empire except Canada—over those in the gold bloc. The share in United Kingdom imports, for example, of five western European countries then on gold—Germany, France, Belgium-Luxemburg, Switzerland, and the Netherlands—declined from 21.5 per cent in 1931 to 13.2 per cent in 1932 and 12.7 per cent in 1933.<sup>49</sup>

The shift of United Kingdom purchases from foreign countries to the Dominions during these crucial years is further explained in terms of the changing character of the imports. The decrease in British importations of manufactured articles was notably greater than that in foodstuffs and raw materials. This marked decline in the ratio of manufactures to total imports between 1931 and 1933 suggests that the diminution of British purchasing power compelled a concentration upon necessities: foodstuffs and raw materials.<sup>50</sup> The impact of the protective tariffs therefore was greatest on competitive manufactures, the suppliers of which are largely outside the Empire.

48. Cf. debate on British trade policy in *Parliamentary Debates*, House of Commons, July 16, 1937, vol. 326, col. 1680 ff.

49. Otmar Emminger, "Ueber den Wirkungsgrad der Handelspolitik, Eine Untersuchung über die Folgen der Ottawa-Verträge," *Vierteljahrshefte zur Konjunkturforschung*, April 7, 1937, p. 400. The United Kingdom share in the exports of France fell from 16.6 per cent in 1931 to 10 per cent in 1932, and in German exports from 11.8 per cent in 1931 to 7.8 per cent in 1932. League of Nations, *Review of World Trade*, 1936, pp. 67-68.

50. Cf. "Empire Trade and World Trade," cited, June 1937, p. 516.

## DISTRIBUTION OF BRITISH IMPORTS

(Percentage of total value)

	Foodstuffs, drink, tobacco	Raw materials, semi-manufactures	Manufactures
1929	43.9	27.8	27.4
1931	48.4	20.1	30.4
1932	53.1	23.5	22.5
1935	47.0	28.1	24.4
1936	45.1	29.2	25.1

Source: Emminger, "Ueber den Wirkungsgrad der Handelspolitik, Eine Untersuchung über die Folgen der Ottawa-Verträge," cited, p. 400. The sharp rise in foodstuffs and raw materials is made more significant by the fact that the price level of these two groups of commodities was falling rapidly.

The advantages gained by Empire producers tended to divert United Kingdom purchases from the trade agreement countries, their chief competitors with respect to foodstuffs and raw materials. The nine major countries involved—the Scandinavian and Baltic states, Argentina, and the Soviet Union—fared badly in the British market: they increased their total exports to the United Kingdom from £150.3 million in 1932 to only £153.5 million in 1936, while their aggregate share in British imports fell from 21.4 per cent in 1932 to 18.1 per cent in 1936.<sup>51</sup>

## THE EXPORT PROBLEM

The second half of the new commercial policy for redress of the balance of payments—that of export expansion—has proved less successful. After declining £180 million, or 31.5 per cent, between 1930 and 1931, British exports fell another £25.6 million, or 6.5 per cent, in 1932, and then began a gradual recovery until 1936 showed a 12.8 per cent increase over 1931. British Empire markets have accounted for the greater part of this increase, as exports to British countries increased 27 per cent between 1931 and 1936, in contrast to a 1.7 per cent increase in exports to non-British countries.

## DESTINATION OF BRITISH EXPORTS

(in millions of pounds)

Year	To Foreign Countries		To British Countries		Total
		%		%	
1929	404.8	55.5	324.4	44.5	729.3
1930	322.4	56.5	248.3	43.5	570.7
1931	219.9	56.2	170.6	43.8	390.6
1932	199.5	54.6	165.5	45.4	365.0
1933	204.3	55.0	163.5	45.0	367.9
1934	210.4	53.2	185.5	46.8	395.9
1935	221.4	52.0	204.3	48.0	425.8
1936	223.7	50.8	216.9	49.2	440.7

Source: *The Economist*, May 1, 1937, p. 265.

51. P E P, *Report on International Trade*, cited, p. 287.

Although Britain's export trade has increased since 1932, the gains have been relatively slow in many areas. Despite the advantages accruing from the Ottawa agreements, United Kingdom exports have lagged behind Empire trade as a whole.<sup>52</sup> The share of British goods in the imports of the Dominions, moreover, has been declining in recent years. In fact, Britain's exports to non-British countries in the sterling bloc have increased almost as rapidly as Britain's exports to the Empire.<sup>53</sup>

SHARE OF BRITAIN IN DOMINION IMPORTS  
(Percentage of total, by value)

	1929	1931	1932	1935	1936
Canada	15.2	18.4	21.3	21.0	19.4
Australia	42.0	40.0	41.6	40.7	.....
New Zealand	46.2	50.1	51.0	50.4	48.9
Union of South Africa	43.1	44.6	46.3	48.7	45.7
British India	42.8	35.5	36.8	38.8	38.6
Irish Free State	78.1	80.8	76.6	72.4	.....

Emminger, "Ueber den Wirkungsgrad der Handelspolitik, Eine Untersuchung über die Folgen der Ottawa-Verträge," cited, p. 407.

Even heavier setbacks have been sustained by British exports outside the Empire, especially in competition with Germany, Japan and the United States. Despite the increased purchasing power of Latin American states and an increase of 16 per cent in the sterling value of their imports, Britain witnessed a steady decline in its exports in this area: 1934, £32.4 million; 1935, £32.2 million; 1936, £31.0 million.<sup>54</sup> In Southeastern Europe the competition of German exports, supported by exchange and clearing agreements, dealt harshly with United Kingdom products.<sup>55</sup> In India and the Far East the inundation of cheap Japanese goods had its effect in the British Isles.<sup>56</sup> It is thus apparent that devaluation did not give the ex-

52. League of Nations, *Review of World Trade*, 1936, pp. 21, 23, 24, 26.

53. Cf. Jacques Villeneuve, *La Préférence Impériale et le Commerce des pays Britanniques Depuis la Crise* (Paris, Librairie Technique et Economique, 1937), pp. 111-13.

54. Excluding British colonies. League of Nations, *Review of World Trade*, 1936, p. 34. United States exports between 1934 and 1936, however, rose 26 per cent to South America and 29 per cent to Central America. *Ibid.*, p. 37.

55. SOURCE OF IMPORTS INTO EASTERN EUROPE  
(Percentage of aggregate imports of Bulgaria, Greece, Hungary, Rumania, Turkey, Yugoslavia)

From	1934	1935	1936
United Kingdom	11.6	9.6	8.4
Germany	19.6	25.6	32.8

Source: League of Nations, *Review of World Trade*, 1936, p. 49.

56. The percentage share of Britain in the Indian market, for example, appears for the two fiscal years 1934-35 and 1935-36 as follows: textiles, 58.5 and 46.4; iron and steel, 49.2 and 47.9; machinery, 71.9 and 67.3; hardware, 32 and 32; chemicals, 55.9 and 55.9. Emminger, "Ueber den Wirkungsgrad der Handelspolitik, Eine Untersuchung über die Folgen der Ottawa-Verträge," cited, p. 409.

pected stimulus to British exports, due in part perhaps to the fact that sterling had been so highly overvalued before 1931.<sup>57</sup> The effect of Britain's devaluation was further diminished by the depreciation of other currencies, particularly those of Japan and the United States, which gave similar assistance to competing producers. On the other hand, countries which clung to the gold standard, many of them important customers of the United Kingdom, suffered from a decline in purchasing power and resorted to increased protection. British exporters were consequently soon faced with new tariff barriers and the subsidized export trade of Germany.

Britain's trade agreements have been fairly successful in encouraging exports, as illustrated in returns for the nine countries—the Scandinavian and Baltic states, Argentina and the Soviet Union—whose share in British markets, analyzed above, declined sharply between 1932 and 1936. United Kingdom exports to these countries increased from £46 million in 1932 to £59 million in 1936, or 12.6 per cent and 13.4 per cent, respectively, of Britain's total exports.<sup>58</sup> The improvement in exports has been most satisfactory in the case of Denmark, Argentina, Latvia and Lithuania. The erratic character of Anglo-Soviet trade relations is particularly noticeable, for the new trade agreement appears to have benefited primarily British re-exports to the U.S.S.R., which increased from £1.3 million in 1932 to £9.4 million in 1936.<sup>59</sup>

#### THE EXPORT INDUSTRIES

The incidence of the depression has been greatest on those industries most dependent on the export trade—coal, cotton textiles, iron and steel, engineering and shipbuilding—for the disparity between Britain's "sheltered" and "unsheltered" trades has never been fully equalized since the war.<sup>60</sup> The failure in particular of coal, iron and steel, and shipbuilding to recuperate from the 1921-22 depression and their relapse after 1929 have created the "Special Areas" of England and Wales, in which permanent unemployment has required widespread government relief, transfer of population, land settlement and subsidies to new industries. Although, as a result of improvement in the export industries, the number of unemployed in the Special Areas has fallen from 282,952

to 210,603, or 25.6 per cent, in the year ending September 30, 1937, the problem of rehabilitating a stranded population remains.<sup>61</sup>

Perhaps the most chronic victim of export anemia has been the coal industry, which between 1913 and 1936 suffered a decline of 21 per cent in production and 32 per cent in employment.<sup>62</sup> Although domestic consumption has been curtailed through fuel-saving devices, export and bunkering losses account for at least 80 per cent of this fall in coal production. The competition of new foreign coalfields and the substitution of electric power and petroleum fuels have damaged most severely the "export districts."<sup>63</sup> The government's efforts to develop new markets have not been entirely successful, for the increased exports resulting from the trade agreements with the Scandinavian countries merely aggravated German and Polish competition in the Mediterranean and other markets.<sup>64</sup> Total coal exports declined from 38.8 million tons valued at £31.6 million in 1932 to 34.5 million tons valued at £29.2 million in 1936, a fall of 11 per cent in tonnage and 7.6 per cent in value.<sup>65</sup> Exports in 1937 have shown considerable improvement over 1936, with Italy returning from the exile of sanctions as a purchaser.<sup>66</sup> New medicine for the ailing industry was prescribed in the Coal Bill submitted by the government in November, by which nationalization of all coal royalties in the United Kingdom will be carried out within five years at a cost of £66,450,000.<sup>67</sup> Until 1942, when all royalties will vest in the state, a Coal Commission will seek to reduce the number of mines in operation by closing all unprofitable undertakings, if necessary by compulsory amalgamations approved by Parliament.

The cotton industry in the Lancashire area has also endured disastrous losses, especially in the post-war years. Cotton cloth exports, for example, declined from 7,075 million linear yards in 1913 to 1,916 million linear yards in 1936.<sup>68</sup> During the post-depression period a slow improvement has been noted in exports of cotton yarn and manufactures: 1933, £58 million; 1935, £60 million; 1936, £61 million.<sup>69</sup> The purchases of cotton tex-

61. *The Manchester Guardian Weekly*, November 26, 1937.

62. *The Economist*, November 27, 1937.

63. *Ibid.*

64. P E P, *Report on International Trade*, cited, pp. 90-91.

65. Great Britain, *Annual Statement of the Trade of the United Kingdom*, 1936, vol. III, p. 40.

66. *Board of Trade Journal* (London), November 25, 1937, p. 690.

67. Great Britain, House of Commons, *Coal Bill*, 1937-38, Bill 43.

68. U. S. Department of Commerce, *Commerce Reports*, November 27, 1937, p. 940.

69. Great Britain, *Annual Statement of Trade of the United Kingdom*, 1936, vol. III, p. 249.

57. Cf. Alphonse Vancetvelde, *La Dépréciation de la Livre Sterling et les Exportations Britanniques* (Paris, Librairie du Recueil Sirey, 1935), pp. 252-68.

58. P E P, *Report on International Trade*, cited, p. 288.

59. *Ibid.*, p. 289.

60. Cf. J. Harry Jones, "Introduction" to *Britain in Depression* (London, Sir Isaac Pitman, 1935).

tiles by five of the trade agreement countries, however, show a decline over the same period: 1934, £6.1 million; 1935, £5.4 million; 1936, £5.3 million.<sup>70</sup> Britain has also lost heavily in the Far East and India, where Japanese competition has been most active.<sup>71</sup> In China the Lancashire exporters have been particularly hard pressed by the combined pressure of Japanese textile exports and the rapid growth of Japanese-owned mills in China.<sup>72</sup> The result has been a steady reduction of looms and spindles in Britain, and the compulsory retirement of some fifty mills at a cost of £842,776 under the direction of the Spindles Board established in 1936.<sup>73</sup>

Although the iron and steel trade has been rescued by the present boom, its position in the event of another depression will continue to be precarious. Huge and haphazard expansion during and immediately after the war left the industry with excessive capital charges and redundant plant at a time when it was challenged by the competition of foreign countries with depreciated currencies.<sup>74</sup> The resulting crisis involved intense competition among domestic producers, a decline in prices and production, a loss of export markets, and finally the writing off of considerable capitalization. The establishment of the British Iron and Steel Federation in 1933 and its agreement with the European Steel Cartel in 1934 regarding regulation of imports into the United Kingdom and distribution of quotas in foreign markets have greatly strengthened the industry. Because of the demands of the rearmament program, stimulating production to record heights, imports have been increasing more rapidly than exports.<sup>75</sup> Exports to the Dominions in 1936 showed increase in both volume and value over 1935 only for Australia and

New Zealand, a decline in both categories for British India,<sup>1</sup> and for Canada and South Africa increased value but decreased volume.<sup>76</sup>

#### THE BALANCE OF INTERNATIONAL PAYMENTS

The full effect of the national government's foreign trade policy must be measured in terms of the total balance of international payments for the United Kingdom.<sup>76a</sup> The maladjustments of 1931 were to a considerable extent repaired in the following year, when the surplus of merchandise imports was reduced from £408 million to £287 million. In this critical period of the depression, the counterbalancing income from other current items showed a similar decline. Income from government transactions declined £38 million between 1931 and 1932; shipping services, £10 million; income from overseas investments, £20 million; short-term investments and commissions, £5 million; while other services increased £5 million. The net deficit therefore on visible and invisible items in the current account was reduced from £104 million in 1931 to £51 million in 1932.

A corresponding change occurred in the capital account, which includes British-owned investments abroad and foreign-owned investments in the United Kingdom. New capital issues to foreign borrowers declined £4 million, while repayments and redemptions on foreign loans increased £21 million. A sharp reversal of movements of short-term liabilities, contributed toward reducing the net deficit on all capital items from £95 million in 1931 to £40 million in 1932.

The balance of international payments also reflects both the extent and the limitations of British recovery in recent years. The extraordinary 1931 deficit of £104 million on all current items has virtually disappeared, for a net credit of £37 million appeared in 1935 and a net deficit of £19 million in 1936. In both years repayments and redemptions turned the capital account into a net surplus.

This marked change in capital movements has created a serious weakness in Britain's economic position, for which as yet no correction has appeared. In the more normal years 1922-28 new capital issues overseas averaged £127 million—a large investment which would eventually produce a valuable income from abroad. A considerable proportion of these foreign loans were provided, it will be noticed, by the net gains on shipping, the in-

70. P. E. P., *Report on International Trade*, cited, p. 290.

71. Ernest O. Hauser, "Anglo-Japanese Rivalry in Southeast Asia," *Foreign Policy Reports*, May 15, 1937.

72. Cf. Rockwood Q. P. Chin, "Cotton Mills, Japan's Economic Spearhead in China," *Far Eastern Survey*, November 17, 1937, pp. 261-67.

73. U. S. Department of Commerce, *Commerce Reports*, November 27, 1937, p. 940.

74. Cf. Great Britain, *Parliamentary Papers*, "Report of the Import Advisory Committee on the Present and Future Development of the Iron and Steel Industry," Cmd. 5507 (London, H. M. Stationery Office, July 1937).

75. BRITISH TRADE IN IRON AND STEEL\*  
(in thousands)

	1929	1931	1935	1936	1937 (Jan. to Oct.)
Imports					
Tons	2,821	2,843	1,151	1,483	1,482
£	24,673	19,604	8,714	11,743	14,268
Exports					
Tons	4,378	1,978	2,368	2,236	2,183
£	67,977	30,361	37,056	36,712	39,955

\**Ibid.*, pp. 100-101; Great Britain, *Accounts Relating to Trade and Navigation*, October 1937, pp. 69, 149.

76. Great Britain, *Annual Statement of the Trade of the United Kingdom*, 1936, vol. III, pp. 126-27.

76a. Cf. *The Economist*, October 30, 1937, p. 217; November 20, 1937, pp. 359-66.

come from previous investments and other services, these categories showing for 1922-28 an average surplus over the merchandise balance of £85 million. Thus Britain was enjoying an ever-expanding economy, profiting from the vast overseas investments of previous generations and sending new funds abroad to provide income for the future. Since 1930, however, falling prices, defaults and conversions, and diminished exports have all served to end this net gain in the current account. The net credit of £37 million on current items in 1935 is outweighed by a total debit of £72 million for the years 1932, 1933, 1934 and 1936. Nothing has

consequently been made available to provide new investments abroad. This unproductive tendency is heightened by the fact that wholesale redemption of previous investments has been taking place since 1931, heavily outweighing all new capital issues during recent years. Perhaps the most significant fact which emerges from a study of Britain's balance of international payments is the simultaneous failure to provide new overseas investments and the gradual repayment of prior foreign issues, both of which will curtail income from abroad and threaten the future balance of international payments.

## BRITISH BALANCE OF INTERNATIONAL PAYMENTS\*

(in millions of pounds)

	<i>Average</i> 1922-28	1931	1932	1935	1936
<b>CURRENT ACCOUNT</b>					
Merchandise	-331	-408	-287	-261	-347
Government transactions	-7	+14	-24	-2	-2
Shipping services	+128	+80	+70	+75	+95
Income from overseas investments	+228	+170	+150	+185	+195
Interest on short-term investments, commissions	+53	+30	+25	+30	+30
Other services	+14	+10	+15	+10	+10
<i>Balance</i>	+85	-104	-51	+37	-19
<b>CAPITAL ACCOUNT</b>					
New issues overseas	-127	-41	-37	-51	-61
Capital repayments	?	+27	+48	+81	+107
Other items	?	-80	-51	+15	?
<i>Balance</i>	-127	-95	-40	+45	+46
<b>GOLD MOVEMENTS</b>	+2	+35	-11	-36	-228
<b>ERRORS AND OMISSIONS</b>	+40	+164	+102	-46	+201
<i>Net Balance on Capital Account</i>	-85	+104	+51	-37	+19

\*The Economist, November 20, 1937, p. 363.

## THE SITUATION IN 1937

Despite the present business recession, less severe than that in the United States, Britain enjoyed an increasing measure of prosperity in 1937. The heavy industries have attained capacity production, building activity has remained high, and unemployment has slowly declined.<sup>77</sup> A paramount factor in this upswing has been the vast rearmament program which is now under way, involving an annual expenditure for five years of £80 million, raised by borrowings, in addition to the ordinary defense appropriations, estimated at the

77. INDEX OF BUSINESS ACTIVITY\*  
(1935=100)

	1929	1931	1936	Aug.	Sept.	Oct.
	Monthly Averages					
General Business	98½	87½	106	113½	113½	113
Employment	98½	91	105	112½	112½	112
Building Activity	60	62	107	95½	95½	96

\*The Economist, Trade Supplement, November 27, 1937.

unusually high figure of £200 million for 1937-38.<sup>78</sup> Warship construction, mechanization of the army, and the creation of a gigantic air fleet have greatly accelerated the engineering and shipbuilding trades and taxed the iron and steel industry to capacity. Sir Thomas Inskip, Minister for Coordination of Defense, reported in November 1937 that in the course of nineteen months, orders had been placed for £288 million worth of armaments, while nineteen factories had been erected.<sup>79</sup> The government's five "shadow" airplane plants, intended for large-scale production in an emergency, were scheduled to be ready early in 1938. Import duties on iron and steel were reduced in July in order to assist the manufacturers.<sup>80</sup> The magni-

78. Great Britain, House of Commons, "Financial Statement (1937-38)," 1936-37, No. 89.

79. The Times, November 5, 1937.

80. Parliamentary Debates, House of Commons, July 6, 1937, vol. 326, col. 165.

tude of this domestic boom has aroused fears that the export trade is being dangerously neglected, creating the risk of another excessive import surplus.<sup>81</sup> Although the recent fall in prices of stocks and primary commodities foreshadows a retardation of business activity, Britain's immediate outlook is generally regarded as favorable.<sup>82</sup> It is possible, however, that—stimulated by enormous governmental expenditures for rearmament—the present boom in capital-goods production may have very serious consequences within the next two or three years.<sup>82a</sup>

British foreign trade in the past year showed a similar growth, checked slightly in the autumn, and indicated an import surplus of over £425 million, surpassing that of 1931. This trend toward a heavily unfavorable balance of trade was accentuated by a 16 per cent increase in the price level of imports in contrast to a 7 per cent increase in export prices.<sup>83</sup> For the first nine months of 1937, imports totaled £741.8 million, an increase over the corresponding period in 1936 of 22 per cent in value and 6 per cent in volume; exports totaled £385.6 million, increasing 20 per cent in value and 12 per cent in volume; re-exports were valued at £59.3 million, a rise of 30 per cent in value and 5 per cent in volume. Although practically all countries profited from the growth of United Kingdom imports, the share of British countries in the total increased slightly, from 39.7 per cent in 1936 to 40.2 per cent in 1937, owing to a sharp rise in imports from India and the colonies. The most striking increase among foreign countries was found in a rise of 44 per cent in imports from the Argentine.<sup>84</sup> Exports during the first three quarters of 1937 revealed a contrasting movement, as foreign countries increased their imports from Britain from 50.8 per cent in 1936 to 52.2 per cent in 1937, the share of the Dominions having fallen sharply.

Until the prospective trade agreement with the United States was announced in November 1937, there had been little evidence that Britain would make far-reaching alterations in its foreign trade

policy. At the time of the tripartite currency agreement of September 26, 1936 the British government agreed with France and the United States that the success of exchange equilibrium was "linked with the development of international trade. In particular, they attach the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition."<sup>85</sup> It soon became evident that Britain would not assume leadership in the direction of tariff reduction. Mr. W. S. Morrison, Financial Secretary to the Treasury, declared before the Second Committee of the League Assembly, that "our main contribution must be to resist the temptation to make unwise use of our great import market."<sup>86</sup> Positive action toward freeing international trade would be left to other countries, he implied, while the United Kingdom would merely provide negative assistance by refraining from counter-devaluation against the gold bloc and from employing clearing agreements to force its exports on the countries from which it imported most heavily. Definite refusal of tariff reduction was made on March 22, 1937, when Prime Minister Baldwin declared that the initiative for freer trade would have to come from foreign countries, as they, rather than Britain, maintained the exchange controls and high industrial duties which impeded trade.<sup>87</sup> Some encouragement was offered, however, early in April, when Britain and France invited Paul van Zeeland, then Prime Minister of Belgium, "to undertake preliminary investigations in various countries as to the possibility of securing a relaxation of quotas and other obstacles to international trade."<sup>88</sup> Despite van Zeeland's visit to the United States in June, no tangible results were noticeable until the larger issue of revision of the Ottawa preference system was raised.

The expiration of the Ottawa agreements last year offered an opportunity for modifying their rigid structure. The Dominions had already fulfilled their Ottawa obligations by removing some of their crisis restrictions and emergency duties, but the "scientific tariff" principle had proved generally unworkable.<sup>89</sup> The Imperial Conference following the Coronation agreed "that all practicable steps should be taken to secure the stimulation of international trade," but recommended that issues arising out of the preference system should be left

81. "Defense Program and Overseas Trade," *Barclays Bank Ltd. Monthly Review*, August 1937. "We ought to be devoting ourselves very largely," said Mr. (now Viscount) Runciman, then President of the Board of Trade, "to preparing the ground for the future when the present demand for these great raw material commodities will be at the ebb." *Parliamentary Debates*, House of Commons, May 25, 1937, vol. 324, col. 160-61.

82. Cf. U. S. Department of Commerce, *Commerce Reports*, November 20, 1937, pp. 918-20.

82a. Hutton, "The Economic Progress of Britain," cited, pp. 282-90.

83. *Board of Trade Journal*, November 18, 1937, pp. 655-57.

84. Great Britain, *Accounts Relating to Trade and Navigation*, October 1937, p. 288.

85. *The Times*, September 26, 1936.

86. League of Nations, *Official Journal*, Special Supplement No. 157, Seventeenth Assembly, Second Committee, 1936, p. 41.

87. *The Times*, March 23, 1937.

88. *Ibid.*, April 6 and 7, 1937.

89. *The Economist*, May 1, 1937.

to individual negotiation between the governments concerned.<sup>90</sup> Some reduction of tariffs has resulted from this process of revision. Under the new trade agreement between Canada and the United Kingdom, Canada reduced from 200 to 90 the number of articles on which Britain has a fixed margin of preference.<sup>91</sup> The net reduction of duties was small, however, most of the cuts being of merely 5 or 2½ per cent.<sup>92</sup> Under a revised Canada-Australia treaty which went into effect on October 1, Canada met Australia's demands for a larger share in the former's markets by reducing duties on goods valued annually at £900 million, of which Australia's share is £117 million.<sup>93</sup>

There has been no indication so far that the preference system imposed on the colonial empire will be modified in the near future. Although the United Kingdom has occasionally given vocal support to proposals for easing the economic disadvantages of the "have-not" powers by offering freer access to raw material sources and colonial markets, it has as yet offered little practical evidence of any change in policy. Responsible statesmen have frequently urged that Britain should return to the open door for its colonies and mandates, not only to promote international appeasement but also to protect the natives from the higher living costs which preferences tend to foster.<sup>94</sup> This was particularly true in the case of Ceylon, where the colonial legislature wanted to offer tariff reductions on Japanese goods but was overruled by the British government. Speaking on behalf of the government in February 1937, the Earl of Plymouth opposed termination of colonial preferences on the grounds that the open door was inimical to the interests of the colonies, would not remove the principal causes of European tension, and would merely result in damaging British exporters by favoring cheap Japanese goods.<sup>95</sup>

#### TRADE AGREEMENT WITH THE UNITED STATES

On November 18, 1937 Prime Minister Chamberlain and Secretary Hull simultaneously announced that Britain and the United States, which together

buy 28 per cent of the world's imports and sell 24 per cent of the world's exports, were proceeding to negotiate a trade agreement.<sup>96</sup> For the United States, such a treaty with its largest customer was necessary to consummate the reciprocity program of Secretary Hull, whose trade agreements with sixteen countries, responsible for 38 per cent of this country's total trade, constitute the first breach in the high tariff wall erected in 1913.<sup>97</sup> For Britain, successful negotiations with the United States would contribute to European appeasement by freeing and increasing international trade. The collaboration of the two greatest commercial nations in a program of tariff reduction, designed eventually to embrace the Dominions and other countries, was widely heralded as a constructive effort for international peace.

Trade between the two countries has shown considerable increases in recent years, although it still reached only half the total of 1929 and remained unsatisfactory with respect to many articles. The United States in 1936 had the largest share in British imports—£93 million, or 11 per cent of the total—and received £36.9 million, or 6.3 per cent of United Kingdom exports. Further improvement was presaged for 1937, in the first nine months of which British imports from the United States were valued at £73.4 million, or 17 per cent over the corresponding period of 1936, and exports to the United States at £23 million, or a 28 per cent increase.<sup>98</sup>

As Anglo-American trade figures reveal a favorable balance for the United States amounting to £56 million in 1936 and £40 million in the first nine months of 1937, it is frequently argued in the United Kingdom that the major concessions in the contemplated agreement should be made by the United States, in order to compensate for Britain's unfavorable balance. The American negotiators have not only opposed the theory that the merchandise trade of two countries should be balanced, but have also replied that many other factors should be taken into account. The export surplus of \$240,000,000 which accrued to the United States in 1936 was offset by shipping, tourist, insurance, and other invisible items which

90. Great Britain, *Parliamentary Papers*, "Imperial Conference, 1937: Summary of Proceedings," Cmd. 5482 (London, H.M. Stationery Office, 1937), pp. 21-22.

91. Herbert Heaton, "British Empire Trade Problems," *Events*, June 1937, pp. 426-31.

92. *The Round Table*, June 1937, pp. 645-47.

93. *The Times*, October 2, 1937.

94. Cf. address of Sir Arthur Salter in *Parliamentary Papers*, House of Commons, May 25, 1937, vol. 324, cols. 139ff.; and addresses of Lord Noel-Buxton, Lord Arnold, Lord Lugard, and others, in *Parliamentary Papers*, House of Lords, February 17, 1937, vol. 104, cols. 172-222.

95. *Parliamentary Papers*, House of Lords, February 17, 1937, vol. 104, cols. 208-220.

96. *The Times*, November 19, 1937; U. S. Department of State, *Press Releases*, November 20, 1937, pp. 383-85. On January 7 Secretary Hull made formal announcement of the intention to negotiate a trade agreement and published a list of commodities to be considered. The appointment of Joseph P. Kennedy as Ambassador to Great Britain was made public at the same time. *New York Times*, January 8, 1938.

97. Cf. David H. Popper, "The Hull Trade Program," *Foreign Policy Reports*, October 15, 1936; and Francis B. Sayre, "To World Peace—Through World Trade," *New York Times*, January 9, 1938.

98. Including re-exports. Great Britain, *Accounts Relating to Trade and Navigation*, October 1937, p. 287.

showed a net credit of \$92,000,000 for Britain. American trade with the British colonial empire, which the United States contends should be added to the calculations, showed a net import surplus of \$185,000,000, augmented by a net debit balance on invisible items of \$30,000,000. The largest part of the American trade with British colonies consisted of raw rubber and tin imports from Malaya valued at over \$160,000,000. The total merchandise and invisible items in the current account between the United States and the United Kingdom with its colonial empire therefore showed a net deficit of \$67,000,000 for the United States. This deficit is greatly enlarged if American imports of silver from the Crown Colonies are added. The total balance for the entire British Empire is heavily adverse to the United States, owing to American purchases of gold produced in the Union of South Africa and transferred through London.<sup>99</sup>

BRITISH-AMERICAN BALANCE OF  
PAYMENTS, 1936\*  
(in millions of dollars)

	United Kingdom	Crown Colonies	U.K. and Crown Colonies	Entire British Empire
Merchandise	+240	-185	+55	+132
Shipping and freight	-20	.....	-20	-28
Tourists	-12	-30	-42	-191
Immigrant remittances	.....	.....	.....	-11
Insurance	-28	.....	-28	-27
Interest and dividends	-32	.....	-32	+136
TOTAL, Merchandise and invisible items	+148	-215	-67	+13
Silver	-53	-3	-56	-67
U. S. Paper	-3	.....	-3	-3
Total all items above	+92	-218	-126	-57
Gold	-174	-9	-183	-357
TOTAL	-82	-227	-309	-414

\**The Economist*, September 25, 1937, p. 617. A plus sign indicates a net balance to the credit, a minus sign a net balance to the debit, of the United States.

Conclusion of a trade agreement is complicated by the nature of the trade between the two countries.<sup>99a</sup> British imports from the United States include many of the foodstuffs—grains, meats, and fruits—on which the Dominions received important concessions at Ottawa; as well as many manufactured articles—machinery, chemicals, and motor cars—on which Britain has imposed particularly high tariffs. Although American agricultural exports have suffered not only from imperial preference, but from drought and crop restriction, the increase of these exports to the United Kingdom is

99. The large deficit of \$357,000,000 on gold is accounted for by the high purchase price of \$35 an ounce.

99a. For detailed compilations of Anglo-American trade in pounds, cf. *The Economist*, October 9, 1937, p. 59.

the crux of the trade agreement problem—especially since the strongest criticisms of the Hull program in this country have come from farming groups. The value of such an agreement to Britain lies primarily in expansion of the market for manufactured articles, many of which compete directly with American products.

PRINCIPAL PRODUCTS IN BRITISH-  
AMERICAN TRADE\*

(thousands of dollars)

	1929	1936
TOTAL UNITED STATES EXPORTS TO UNITED KINGDOM	\$848,000	\$440,122
Meats and edible animal fats	75,755	23,855
Lard	31,216	7,645
Leather	10,365	3,161
Furs, undressed	11,310	10,123
Barley, grain	9,237	4,086
Wheat, grain	27,758	195
Wheat flour	7,852	223
Fruits and nuts	52,256	32,908
Canned fruits	21,823	15,696
Tobacco, leaf	79,880	95,097
Cotton, raw	159,715	78,663
Sawmill products	24,999	14,800
Petroleum and products	100,805	28,342
Iron and steel-mill products	6,560	5,425
Copper (ingots, rods, bars)	37,300	5,686
Electrical machinery and apparatus	8,368	10,114
Industrial machinery	26,394	20,495
Automobiles, parts and accessories	25,206	12,225
Chemical and related products	18,314	12,564
TOTAL UNITED STATES IMPORTS FROM UNITED KINGDOM	\$329,751	\$200,385
Leather	14,066	3,970
Furs, undressed	16,409	22,490
Tea	8,162	5,362
Whiskey and spirits	1	27,609
Cotton cloth	9,794	2,988
Cotton yarns and warps	3,195	1,477
Burlaps	7,313	3,137
Manufactures of flax, hemp, ramie	21,850	13,529
Carpet wool	8,878	5,341
Combing wool	4,114	2,256
Wool and mohair fabrics	15,392	6,459
Wool hosiery, other wearing apparel	6,007	3,463
Earthenware, crockery, etc.	2,807	1,174
Iron and steel-mill products	4,925	1,206
Tin in bars, blocks, etc.	17,231	8,709
Books and printed matter	11,910	3,684
Works of art	39,030	9,911

\*Cf. U.S. Department of State, *Press Releases*, November 20, 1937.

Vigorous opposition has arisen in the United States against making concessions to either the manufactures of the United Kingdom or the agricultural products of the Dominions. Americans

have long resented the British custom of including in *ad valorem* duties on imports the heavy freight and insurance rates across the Atlantic, which increases the value and hence the duties on American exports to Britain.<sup>100</sup> Representative Snell of New York has urged that the Reciprocal Trade Agreement Act should be repealed, and Senator Lodge and Representative Edith Rogers of Massachusetts have both asserted that further negotiations should be postponed until the effects of the Hull program can be fully investigated.<sup>100a</sup> The prospect of reduced tariff rates on dairy and agricultural products from Canada and other Dominions has aroused statements of protest from the American National Livestock Association and Senator Adams of Colorado against enlarging the quota on importations of Canadian cattle.<sup>100b</sup>

Yet the United States, without jeopardy to domestic producers, can offer reduction of rates on many articles essentially British in character. It is estimated that advantages can be safely given on at least sixty such articles, on which the rates in many cases are excessively high, including table damask, handkerchief linen, high-grade worsteds and woollens, and certain types of cotton textiles.<sup>101</sup> Not only do the bulk of British imports into the United States pay 30 to 45 per cent duties, but many important articles are confronted with even higher rates: 45 to 60 per cent on table damask, wool noils, broad silks; 60 to 75 per cent on wool carpets, wool hosiery, china and porcelain; 75 to 90 per cent on worsteds; over 90 per cent on earthenware, heavy woolen yarns, cotton laces, and wool wastes.<sup>102</sup> Reasonable concessions on these and probably many other products will undoubtedly give a marked stimulus to American agricultural exports, while industrial interests will in turn benefit from future agreements with Canada and other Dominions.

#### BRITISH OPPOSITION TO TRADE PACT

Despite optimistic statements that the most serious stumblingblocks have been cleared away in preliminary discussions, the path of an Anglo-American trade agreement remains beset with formidable difficulties. Although many American manufactures are sufficiently specialized to meet

competition in the United Kingdom market, some concessions will undoubtedly be demanded, especially as manufactured products have suffered a greater decline in value than agricultural exports to Britain.<sup>103</sup> The United Kingdom could probably offer reduced duties on some of these manufactures and luxury articles which, in a boom period, can be absorbed without damage to the national economy, such as machinery, automobiles, radios, refrigerating and air-conditioning equipment. The Federation of British Industries, however, has already declared that it is "inadvisable to enter into any agreement involving a reduction or stabilization of British tariff rates at the present time."<sup>104</sup> The Federation argues that the proposed treaty will lead to an inundation of American competitive products and the dumping of surpluses, and that, as a result of the most-favored-nation clause on which the United States insists, Germany and Japan will secure benefits without just compensation.

Britain's position throughout the negotiations has been made doubly difficult by the manifold entanglements of the Ottawa agreements. Dominion producers, especially Canadian lumber interests, have vigorously resented American encroachments upon their preferential position. To the British arguments that the United States should compensate the Dominions for any inroads which it makes on their privileged position in United Kingdom markets, the American government has replied that such compensations should, on the contrary, come from the country which signed the Ottawa agreements. From the American point of view, the logical form of compensation to the Dominions would be release from some of their obligations to the United Kingdom, so that they can negotiate agreements with third countries and exploit new and perhaps more satisfactory outlets for their primary products. The Dominions would thereby remedy the present danger of total dependence on the British market, which might be partially or completely closed in the event of war or of new restrictions to protect British agriculture. By completing agreements with Britain and the several Dominions, the United States could increase its exports into the British Empire, without unduly reducing the advantages of Dominion producers. Both American and Dominion farmers would therefore benefit from the expanded consumption which comes with trade recovery and general increased purchasing power.

100. Cf. *New York Sun*, January 11, 1938.

100a. *The New York Times*, November 23, 1937. For vigorous protests against further tariff reductions, cf. editorials by William Randolph Hearst and George Rothwell Brown, *New York Journal and American*, December 23, 1937, and January 2, 1938.

100b. *The Denver Post*, November 19, 1937.

101. Percy W. Bidwell, "Prospects of a Trade Agreement with England," *Foreign Affairs*, October 1937, pp. 110-111.

102. *Ibid.*, p. 105.

103. Great Britain, *Annual Statement of Trade of the United Kingdom*, 1929, vol. I, p. 135; *Ibid.*, 1935, vol. I, p. 187.

104. *The Times*, December 10, 1937.

# CONCLUSION

Judged in terms of its immediate objectives in 1931, the National Government has attained considerable success, through both careful planning and good fortune. The dangerous disequilibrium of the emergency period was promptly and effectively corrected, and the balance of international payments measurably improved. The political and economic unity of the British Commonwealth has been enhanced by the stimulation of mutual trade, and similar though less impressive recovery has been made in trade with countries outside the Commonwealth. Britain's prosperity, however, conceals many grave defects in the general program, giving cause for apprehension regarding the future.

British economy has long been based on a continually growing foreign trade, any curtailment of which may have serious consequences. However justifiable the imposition of tariffs and quotas may have been in 1931, their deleterious effect on world trade and the resultant danger to Britain can hardly be denied. Although reductions of duties may in the future be desirable—as at present in negotiations with the United States—any modification of the protectionist policy becomes increasingly difficult because of the growth of powerful interests, both industrial and agricultural, in support of existing and even higher tariffs.

The rigidity of the Ottawa system has likewise been a serious weakness, and the desirability of "tying the hands" of Britain over five-year periods is open to question. The triangular character of international trade is such that the British Empire cannot profitably trade *in vacuo*. The United Kingdom and the Dominions must be prepared to buy and sell in terms of economic rather than political criteria, if international trade is to return to its normal channels. The Ottawa agreements have tended to divert rather than augment world trade, by stabilizing and raising tariff barriers throughout the Empire. The steady improvement in the sterling bloc and the increasing trade between Canada and the United States indicate that the long-term interests of the British Empire lie in improvement of world trade rather than in just inter-Empire trade.

Willingness to negotiate a trade agreement with the United States marks not only the first large-scale revision of the Ottawa system but also a reversal of British commercial policy. The trade agreements concluded since 1931 have been designed primarily to enlarge the market for British exports through special privileges without equal concessions to foreign exporters. The tendency toward bilateralization of trade by restrictive commercial treaties and clearing and payments agree-

ments is reversed by acceptance of the broader American policy of mutual reductions and generalization of benefits through the most-favored-nation clause.

In terms of more permanent adjustment for the future, Britain's agricultural policies in the post-depression years evoke serious criticism. The three-fold problem of assisting the domestic producer by tariffs and subsidies, favoring the Empire producer by preferences, and protecting the consumer against rising food prices and taxes has not yet been solved. The most noticeable effect of the concerted attempt to assist British agriculture has probably been a sharp rise in the cost of living, the burden of higher prices falling on the lower classes. Long-range planning for agriculture is made more difficult by the danger of war, involving problems of food storage and changes in crops. Agricultural preferences to the Dominions, moreover, have weakened Britain's bargaining position with respect to foreign countries such as the United States, which are prepared to offer reasonable concessions on British manufactures.

The incorporation of the colonial empire in the preference system gives credence to the arguments of fascist countries that ownership of colonies is more valuable than theoretical rights to the open door. The ultimate effect of the closed door policy is to hamper international trade and to create political repercussions far outweighing the economic advantages gained. There is the additional danger that the natives in many of the colonial areas will be handicapped by the higher cost of living which colonial preferences are likely to entail.

The failure of British exports to keep pace with both domestic prosperity and world trade will affect the national economy more seriously in the event of an extended regression of the 1937 boom. The present dependence on rearmament for stimulation of the heavy industries gives rise to false hopes regarding the future. New maladjustments in the balance of international payments, if again accentuated by large import surpluses, will aggravate the economic and social problems of the Special Areas surrounding the export industries. Although foreign markets for capital investment remain uncertain, future prosperity depends to a large extent on a renewal of loans abroad as a basis for renewed exports. Confronted by new dislocations arising out of war or depression, Britain may need to develop a more flexible foreign trade policy and possibly to return to some of the freer conditions obtaining before 1931, with a minimum of tariff and other obstructions to imports and a maximum of capital investment and other aids to exports.